

Message Text

PAGE 01 STATE 205448 TOSEC 100272

61

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TO USDEL SECRETARY IMMEDIATE

UNCLAS STATE 205448 TOSEC 100272

E.O. 11652:

TAGS: PFOR ENRG UNGA

SUBJECT: SECRETARY'S SPEECH

REFTEL: SECTO 10162

FOR HORMATS FROM ENDERS

HERE IS SUMMARY OF WORLD BANK REPORT AS REQUESTED REFTEL.

QTE 1. IN FISCAL 1975, THE WORLD BANK GROUP GREATLY EXPANDED ITS LENDING TO DEVELOPING MEMBER NATIONS. LENDING AND INVESTMENT COMMITMENTS TOTALED DOLS 6,108 MILLION, OR DOLS 1,591 MILLION ABOVE THE RECORD LEVEL SET IN THE PREVIOUS YEAR. LENDING BY THE BANK ACCOUNTED FOR DOLS 4,319.7 MILLION, COMPARED WITH DOLS 3,218 MILLION. IN ABSOLUTE TERMS, THE INCREASE AMOUNTED TO 34 PERCENT; IN REAL TERMS (1974 DOLLARS), THE INCREASE CAME TO 25 PERCENT. COMMITMENTS BY THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) WERE UP 44 PERCENT TO DOLS 1,576.2 MILLION, AS AGAINST DOLS 1,095 MILLION LAST YEAR. IN REAL TERMS, IDA COMMITMENTS IN THE YEAR ROSE BY 34 PERCENT OVER FISCAL 1974. THE INTERNATIONAL FINANCE CORPORATION (IFC) MADE INVESTMENT COMMITMENTS OF DOLS 211.7 MILLION (FOR FURTHER DETAILS, SEE THE IFC'S ANNUAL REPORT). IN ADDITION, THE BANK MADE ONE LOAN OF DOLS 50 MILLION TO THE IFC.

UNCLASSIFIED

PAGE 02 STATE 205448 TOSEC 100272

2. NET INCOME BY THE BANK (DOLS 275 MILLION), BORROWINGS (DOLS 3,510 MILLION), AND DISBURSEMENTS (DOLS 3,021 MILLION, INCLUDING THOSE OF IDA), ALSO REACHED RECORD HIGHS. (FOR FURTHER DETAILS, SEE THE " BORROWINGS AND

FINANCE" SECTION.)

3. IDA COMMITMENTS ROSE BECAUSE ADDITIONAL RESOURCES WERE RECEIVED UNDER THE TERMS OF THE FOURTH REPLENISHMENT. THOSE RESOURCES AMOUNT TO APPROXIMATELY DOLS 4,500 MILLION OVER THE THREE-YEAR PERIOD 1975-77. THE FOURTH REPLENISHMENT BECAME EFFECTIVE IN JANUARY 1975 WHEN THE UNITED STATES GOVERNMENT OFFICIALLY NOTIFIED THE ASSOCIATION OF ITS PARTICIPATION. UNDER THE AGREEMENT REACHED BY 24 MEMBER NATIONS IN NAIROBI IN SEPTEMBER 1973, THE FOURTH REPLENISHMENT COULD BECOME EFFECTIVE ONLY AFTER 12 DONOR (OR PART 1) IDA MEMBERS HAD GIVEN OFFICIAL NOTIFICATION OF THEIR CONTRIBUTIONS, AND WHEN THE AMOUNT OF CONTRIBUTIONS NOTIFIED REACHED DOLS 3,500 MILLION, OR ABOUT 80 PERCENT OF THE TOTAL.

4. THE BANK CONTINUED TO EXPAND ITS ASSISTANCE TO THE LEAST DEVELOPED COUNTRIES. THE EXPANSION WAS IN LINE WITH THE POLICY OF PROVIDING MORE ASSISTANCE TO THE POOREST COUNTRIES AND PEOPLE. THEIR NEEDS TOOK ON ADDITIONAL URGENCY IN A YEAR DURING WHICH THEIR PROBLEMS WERE EXACERBATED BY ECONOMIC EVENTS BEYOND THEIR CONTROL. THE POOREST COUNTRIES ACCOUNTED FOR 38 PERCENT OF TOTAL BANK AND IDA COMMITMENTS, AS OPPOSED TO 31 PERCENT IN FISCAL 1974. IN THE CASE OF IDA ALONE, SUCH COUNTRIES ACCOUNTED FOR 84 PERCENT OF COMMITMENTS.

5. AGRICULTURE ACCOUNTED TO A RECORD 32 PERCENT OF ALL COMMITMENTS (IT WAS 22 PERCENT IN FISCAL 1974); LENDING IN THE BANK'S "TRADITIONAL" SECTORS-POWER, TRANSPORTATION, AND TELECOMMUNICATIONS-CONTINUED TO DECREASE AS A PROPORTION OF THE WHOLE (29 PERCENT IN FISCAL 1975, COMPARED WITH 43 PERCENT IN THE PREVIOUS YEAR).

6. MORE THAN HALF OF ALL BANK AND IDA OPERATIONS FOR AGRICULTURE-INVOLVING COMMITMENTS OF NEARLY DOLS 1,000 UNCLASSIFIED

PAGE 03 STATE 205448 TOSEC 100272

MILLION-WERE FOR RURAL DEVELOPMENT PROJECTS DESIGNED SPECIFICALLY TO INCREASE THE PRODUCTIVITY OF THE RURAL POOR. IN ADDITION, ABOUT DOLS 80 MILLION WAS COMMITTED FOR NINE EDUCATION PROJECTS WHOSE PRIMARY OBJECTIVE IS TO INCREASE SKILLS IN RURAL AREAS. ABOUT DOLS 130 MILLION WAS COMMITTED FOR THE CONSTRUCTION OF RURAL ROADS. THUS, IN FISCAL 1975, THE BANK AND IDA COMMITTED OVER DOLS 1,000 MILLION SPECIFICALLY FOR THE RURAL POOR, OR MORE THAN TWICE THE FISCAL 1974 FIGURE OF LESS THAN DOLS 500 MILLION.

A WORLD IN UNCERTAINTY

7. DURING THE 12 MONTHS COVERED BY THIS ANNUAL REPORT, THE UNCERTAINTY IN WORLD ECONOMIC RELATIONSHIPS CONTINUED-

AS IN THE PREVIOUS YEAR-TO CLOUD THE PROSPECTS OF DEVELOPING COUNTRIES. IN FISCAL 1974, THE UPHEAVAL IN GLOBAL ECONOMIC RELATIONSHIPS WAS CHARACTERIZED BY ACCELERATED RISES IN PRICES OF BOTH CAPITAL GOODS AND PRIMARY COMMODITIES, SUDDEN AND SUBSTANTIAL INCREASES IN PETROLEUM PRICES, FOOD AND FERTILIZER SHORTAGES, AND THE BEGINNINGS OF RECESSION IN THE INDUSTRIAL COUNTRIES.

8. IN FISCAL 1975, LITTLE RELIEF FROM THE PROBLEMS OF THE PREVIOUS YEAR WAS FOUND. THE YEAR WAS HAUNTED BY THE

SPECTER OF A DEEPENING RECESSION AND RAPID INFLATION IN THE INDUSTRIALIZED COUNTRIES (IN COMBINATION ON A SCALE UNPRECEDENTED IN THE LAST QUARTER-CENTURY), STEADY PRICES FOR PETROLEUM PRODUCTS (IN CALENDAR 1974, THE TOTAL BILL FOR SUCH PRODUCTS AMOUNTED TO 12 PERCENT OF THE TOTAL COST OF IMPORTS IN THOSE DEVELOPING COUNTRIES WHICH ARE NOT MEMBERS OF OPEC), AND BY A SHARP DROP IN THE PRICES PAID FOR MANY OF THE PRIMARY COMMODITIES TRADITIONALLY EXPORTED BY THE DEVELOPING COUNTRIES. NO COUNTRY WAS ABLE TO ESCAPE THE EFFECTS OF THESE FORCES. EVEN THOSE COUNTRIES WHICH HAD, OR WERE ABLE TO OBTAIN, THE RESOURCES NECESSARY TO MAINTAIN GROWTH RATES WERE SIGNIFICANTLY AFFECTED BY THE WORLD ECONOMIC SLOWDOWN.

9. FOR THE 1,000 MILLION PEOPLE LIVING IN LOWER-INCOME COUNTRIES, THE ECONOMIC EVENTS OF THE PAST YEAR HAVE MEANT UNCLASSIFIED

PAGE 04 STATE 205448 TOSEC 100272

THAT AVERAGE REAL INCOMES HAVE NOT RISEN AT ALL. CURRENT PROJECTIONS INDICATE THAT THEIR REAL INCOMES MAY GROW BY LESS THAN ONE PERCENT YEARLY FOR THE REST OF THE DECADE. NOT SURPRISINGLY, THESE COUNTRIES ARE THE ONES WHOSE IMMEDIATE PROSPECTS DEPEND TO AN EXTENT GREATER THAN OTHERS, ON FACTORS LARGELY BEYOND THEIR CONTROL: THE WEATHER, THE AVAILABILITY OF EXTERNAL AID, AND INTERNATIONAL PRICES FOR THEIR EXPORTS AND IMPORTS.

10. REAL GROWTH RATES IN OTHER DEVELOPING COUNTRIES REMAINED AT ABOUT 4 PERCENT PER CAPITA. THEY WERE MAINTAINED IN LARGE PART BECAUSE MANY HIGHER-INCOME COUNTRIES WERE ABLE TO BORROW SUBSTANTIAL AMOUNTS FROM FOREIGN COMMERCIAL SOURCES, ALBEIT ON RELATIVELY HARD TERMS.

11. THE RECESSION IN THE INDUSTRIALIZED COUNTRIES IN 1974 AND 1975 HAS SHARPLY AFFECTED THE DEVELOPING WORLD. ONE

IMPORTANT RESULT OF INDUSTRIAL SLOWDOWN AND OF MEASURES ADOPTED TO REDUCE INFLATION WAS A GENERAL DECLINE IN THE PRICES OF MAJOR PRIMARY COMMODITIES (EXCLUDING PETROLEUM) SUPPLIED BY DEVELOPING COUNTRIES. THIS DECLINE CAME IN SUCCESSIVE STAGES THROUGHOUT 1974; THE DOWNWARD MOVEMENT

OF PRICES RAPIDLY ACCELERATED AS 1975 BEGAN, AND HAS CONTINUED EVER SINCE. ON THE OTHER HAND, PRICES OF MANUFACTURED GOODS-WHICH COMPRISE MORE THAN TWO-THIRDS OF THE IMPORT BILL OF THE DEVELOPING COUNTRIES-CONTINUED TO RISE. AS A RESULT, THE TERMS OF TRADE OF MOST DEVELOPING COUNTRIES WORSENEED. THE PURCHASING POWER OF EXPORTS OF PRIMARY COMMODITIES IS EXPECTED TO DECLINE BY ABOUT 13 PERCENT IN 1975.

12. COUNTRIES WITH ANNUAL PER CAPITA INCOMES OF ABOVE DOLS 200 ARE PARTICULARLY AFFECTED BY THE DECLINE IN THE GROWTH RATES OF DEVELOPED COUNTRIES. THE DEMAND FOR MANY OF THE GOODS AND SERVICES THAT EARN THEIR FOREIGN EXCHANGE-TOURISM, MANUFACTURES, NON-FERROUS METALS, AND SOME RAW MATERIALS SUCH AS RUBBER, TIMBER, AND FIBERS-IS HIGHLY SENSITIVE TO ECONOMIC CONDITIONS IN THE INDUSTRIALIZED NATIONS. THUS, THE ABILITY OF THE INDUSTRIALIZED WORLD TO RESOLVE ITS OWN ECONOMIC PROBLEMS DIRECTLY AFFECTS UNCLASSIFIED

PAGE 05 STATE 205448 TOSEC 100272

THEIR EXPORT RECEPITS. LATIN AMERICA HAS BEEN PARTICULARLY AFFECTED BY THE DOWNTURN IN THE INDUSTRIAL NATIONS. IT IS ESTIMATED THAT THE DECLINE IN MANUFACTURED EXPORTS FROM THIS REGION COULD BE ALMOST DOLS 1,000 MILLION IN 1975.

13. THE RECENT CHANGES IN THE INTERNATIONAL SITUATION HAVE ALSO WORKED AGAINST THE LOWER-INCOME COUNTRIES, PARTICULARLY THOSE WHICH DEPEND ON IMPORTS OF FOOD AND FERTILIZERS AND EXPORTS OF TEXTILES. IN ADDITION, EXPORTERS OF NON-FERROUS METALS AND ORES HAVE BEEN ADVERSELY AFFECTED.

14. THE PRINCIPAL RESPONSE OF MOST DEVELOPING COUNTRIES TO THE CRISES THAT HAVE JOLTED THE WORLD ECONOMY IN THE LAST TWO YEARS HAS BEEN TO ADOPT POLICIES TO ATTEMPT TO MEET THEM HEAD ON. THEY HAVE TAKEN DRAMATIC AND, AT TIMES, EXTREMELY HARSH MEASURES-AT CONSIDERABLE POLITICAL COST-TO ALLEVIATE THE ADVERSE EFFECTS OF THE INTERNATIONAL ECONOMIC CLIMATE.

15. IN THE SAHELIAN COUNTRIES, FOR EXAMPLE, WHERE ECONOMIC PERFORMANCE HAS BEEN AFFECTED IN LARGE MEASURE BY RECENT DROUGHTS, THE MAJOR RESPONSE HAS BEEN TO ORGANIZE EMERGENCY FOOD RELIEF PROGRAMS WITH THE HELP OF EXTERNAL AID. IN MOST OF THE SAHELIAN COUNTRIES, THE SLENDER BASE OF RESOURCES HAS LEFT ECONOMIES WITH VERY LITTLE ROOM FOR MANEUVER.

16. COUNTRIES AFFECTED PRINCIPALLY BY THE RECESSION IN THE INDUSTRIALIZED WORLD HAVE ALSO ACTED WITH GREAT SPEED TO SOFTEN ITS IMPACT. THE REPUBLIC OF KOREA-HEAVILY DEPENDENT ON THE AMERICAN AND JAPANESE MARKETS FOR ITS EXPORTS-HAS ADOPTED A SPECIAL CREDIT PROGRAM WHICH

PROVIDES A LARGE VOLUME OF SHORT-TERM FINANCING TO HELP INDUSTRIES CARRY LARGER INVENTORIES; PREFERENTIAL RATES GO TO SMALL AND MEDIUM-SIZED FIRMS. A "LAND BANK" WAS ESTABLISHED TO BUY REAL ESTATE FROM PRIVATE FIRMS THAT NEED CASH TO STRENGTHEN THEIR FINANCES. PUBLIC INVESTMENT PROGRAMS FOR LABOR-INTENSIVE SECTORS ARE BEING INITIATED TO CREATE EMPLOYMENT. ALONG WITH A NUMBER OF COUNTRIES, ITS CURRENCY WAS DEVALUED IN ORDER TO STRENGTHEN ITS BALANCE OF PAYMENTS OVER THE LONGER RUN.
UNCLASSIFIED

PAGE 06 STATE 205448 TOSEC 100272

17. MOST OF THE COUNTRIES ESPECIALLY HIT BY INFLATION DEPLOYED A WIDE VARIETY OF MONETARY AND FISCAL INSTRUMENTS TO DAMPEN INFLATIONARY PRESSURES. INTEREST RATES WERE RAISED, RESERVE REQUIREMENTS INCREASED, AND SEVERE RESTRICTIONS WERE PLACED ON THE EXTENSION OF CREDIT BY THE BANKING SECTOR. FOR A SHORT WHILE, MANY GOVERNMENTS CUSHIONED THE IMPACT OF HIGHER WORLD PRICES ON FINAL CONSUMERS BY INCREASING SUBSIDIES ON CRUCIAL COMMODITIES. AS A RESULT, THERE WERE SOME CUTBACKS IN INVESTMENT PROGRAMS. HOWEVER, TO AVOID WORSENING ECONOMIC PROBLEMS IN THE FUTURE, GOVERNMENTS BEGAN TO REDUCE SUBSIDIES; THEY PASSED ON PRICE INCREASES TO CONSUMERS, AND RESTORED INVESTMENT PROGRAMS, PARTICULARLY IN THOSE SOCIAL SECTORS WHICH CAN BE EFFECTIVE IN REMOVING THE HANDICAPS OF THE POOREST SECTIONS OF SOCIETY. IN KENYA AND TANZANIA, VARIOUS METHODS WERE TRIED TO SOFTEN THE IMPACT OF INFLATION ON THE POOR. MODERATE WAGE INCREASES IN TANZANIA WERE LIMITED TO LOWER-PAID EMPLOYEES; IN KENYA, IT WAS DECIDED THAT ONLY THE LOWEST-PAID WOULD BE COMPENSATED FULLY FOR COST OF LIVING INCREASES.

18. MANY DEVELOPING COUNTRIES ADVERSELY AFFECTED BY DETERIORATING TERMS OF TRADE TOOK STEPS TO REDIRECT PRODUCTION AND INVESTMENT. EGYPT AND INDIA WERE AMONG THOSE THAT SHIFTED THEIR FOCUS TOWARDS BETTER UTILIZATION OF INSTALLED CAPACITY AND AWAY FROM THE INSTALLATION OF NEW CAPACITY. SOME COUNTRIES SHIFTED INVESTMENT AWAY FROM INFRASTRUCTURE AND TOWARDS COMMODITY PRODUCTION SECTORS. MANY GOVERNMENTS INCREASED THEIR INVESTMENT IN FOOD PRODUCTION IN ORDER TO AVOID AN ABJECT FORM OF DEPENDENCE AND TO WARD OFF THE THREAT OF STARVATION. A NUMBER OF GOVERNMENTS-INCLUDING ECUADOR, BOLIVIA, IVORY COAST, PAKISTAN, INDIA, AND SRI LANKA-GREATLY STEPPED UP

THEIR INVESTMENTS TO LOCATE, DEVELOP, AND EXPLOIT DOMESTIC ENERGY SOURCES.

19. THE PROSPECTS OF DEVELOPING COUNTRIES DEPEND HEAVILY ON THEIR RESOURCE ENDOWMENTS. MOST CANNOT, BY THEMSELVES, MAKE THE ADJUSTMENTS THAT WILL PERMIT THEM NOT ONLY TO
UNCLASSIFIED

PAGE 07 STATE 205448 TOSEC 100272

WEATHER THE CURRENT ECONOMIC UNCERTAINTIES, BUT ALSO TO INCREASE GROWTH RATES. THE NEED FOR EXTERNAL ASSISTANCE HAS GROWN; THE NEED TO EXAMINE WAYS BY WHICH DEVELOPING COUNTRIES CAN EARN MORE THROUGH INCREASED EXPORTS HAS ALSO BECOME MORE APPARENT.

CAPITAL FLOWS

20. BANK ESTIMATES INDICATE THAT IF DEVELOPING COUNTRIES, AS A WHOLE, ARE TO REACH A GROWTH RATE OF 6 PERCENT ANNUALLY BY 1980-A RATE NECESSARY FOR THEM TO ATTAIN A REASONABLE DEGREE OF ECONOMIC AND SOCIAL DEVELOPMENT- THROUGH ADDITIONAL CAPITAL INFLOWS ALONE, THE AMOUNTS REQUIRED WOULD BE MASSIVE. INDEED THE SUMS WOULD HAVE TO GO FAR BEYOND ANY AMOUNT LIKELY TO BE FORTHCOMING-EVEN ASSUMING THAT ECONOMIC GROWTH IN THE INDUSTRIALIZED COUNTRIES IS RAPID.

21. SUCH MASSIVE ADDITIONAL CAPITAL FLOWS ARE UNLIKELY FOR A NUMBER OF REASONS.

22. IN RECENT YEARS, MEMBERS OF THE ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES (OPEC) HAVE SIGNIFICANTLY INCREASED THEIR FINANCIAL ASSISTANCE TO DEVELOPING COUNTRIES AND TO DEVELOPMENT INSTITUTIONS; BOTH IN TERMS OF COMMITMENTS AND DISBURSEMENTS. THE DEVELOPMENT ASSISTANCE POLICIES OF THESE COUNTRIES, PARTICULARLY FOR THE MEDIUM TERM AND LONG TERM, ARE IN A PROCESS OF EVALUATION. OPEC MEMBERS HAVE DECIDED TO GIVE HIGH PRIORITY TO DOMESTIC DEVELOPMENT AS LONG AS THEIR OWN PER CAPITA INCOMES ARE LOWER THAN THOSE OF THE INDUSTRIALIZED NATIONS. OPEC COMMITMENTS AND DISBURSEMENTS ARE LIKELY TO BE RELATED TO THEIR BALANCE OF PAYMENTS. THEIR CURRENT ACCOUNT SURPLUS, WHICH INCREASED DRAMATICALLY TO A LEVEL OF ABOUT DOLS 65,000 MILLION IN 1974, IS NOT EXPECTED TO GROW SIGNIFICANTLY FOR THE REMAINDER OF THE DECADE. EVEN ASSUMING A QUICK RECOVERY BY THE OECD (ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT) NATIONS, A NUMBER OF OPEC MEMBERS CAPABLE OF UNDERTAKING LARGE PROGRAMS FOR DOMESTIC DEVELOPMENT MAY BE IN CURRENT ACCOUNT DEFICIT BY 1980.

UNCLASSIFIED

PAGE 08 STATE 205448 TOSEC 100272

23. ANOTHER MAJOR SOURCE OF INCREASED CAPITAL FLOWS TO THE DEVELOPING WORLD IS THE DAC (DEVELOPMENT ASSISTANCE

COMMITTEE OF THE OECD) COUNTRIES. THEIR CONCESSIONARY ASSISTANCE, MEASURED AS A PERCENTAGE OF THEIR COMBINED GROSS NATIONAL PRODUCT (GNP), HAS DECLINED FROM 0.51

PERCENT IN 1963 TO AN ESTIMATED 0.33 PERCENT IN 1974. IF A 6 PERCENT RATE OF GROWTH IN DEVELOPING COUNTRIES WERE TO BE ACHIEVED SOLELY BY RELIANCE ON LARGER ODA (OFFICIAL DEVELOPMENT ASSISTANCE) FLOWS FROM DAC COUNTRIES, CONCESSIONARY ASSISTANCE WOULD HAVE TO INCREASE TO 0.81 PERCENT OF GNP. PRESENT PROJECTIONS, HOWEVER, INDICATE THAT DESPITE THE RISE IN 1974, AND DESPITE INDICATIONS THAT SOME COUNTRIES WILL EITHER MAINTAIN HIGH RATES OF ODA, OR WILL INCREASE THEM, FLOWS OF CONCESSIONARY ASSISTANCE MIGHT DROP TO 0.24 PERCENT OF GNP BY 1980.

CAPITAL FLOWS, OPEC AND DAC

24. ALTHOUGH THE STATISTICS ON THE AID FLOWS FROM MEMBERS OF OPEC ARE MUCH LESS FIRM THAN THOSE FOR THE OECD/DAC COUNTRIES, REPORTS INDICATE THAT TOTAL COMMITMENTS BY OPEC MEMBERS ROSE FROM DOLS 3,000 MILLION IN 1973 TO DOLS 16,000 MILLION IN 1974. REPORTED DISBURSEMENTS ALSO ROSE RAPIDLY, FROM ABOUT DOLS 1,000 MILLION TO DOLS 5,000 MILLION. THESE FIGURES INCLUDE BOTH CONCESSIONARY AND NON-CONCESSIONARY RESOURCES. IN 1974, APPROXIMATELY 40 PERCENT OF DISBURSEMENTS WERE ON CONCESSIONARY TERMS. THE NON-CONCESSIONARY DISBURSEMENTS INCLUDED LOANS TO THE BANK (DOLS 1,460 MILLION) AND TO THE INTERNATIONAL MONETARY FUND'S OIL FACILITY (DOLS 1,220 MILLION, THE PROPORTION OF THE FACILITY LENT TO DEVELOPING COUNTRIES).

25. PRELIMINARY DATA FROM DAC INDICATE THAT ODA BY DAC MEMBERS ROSE BY 21 PERCENT IN DOLLAR TERMS, BUT VERY LITTLE IN REAL TERMS IN FISCAL 1975. THE TOTAL ODA OF DOLS 11,300 MILLION (OR 0.33 PERCENT OF COMBINED GNP) WAS THE FIRST SIGNIFICANT REVERSAL IN THE DOWNWARD TREND OBSERVED SO FAR IN THE 1970'S. ALL 17 DAC NATIONS INCREASED THEIR OUTFLOW OF ODA IN DOLLARS DURING THE YEAR, AND 13 UNCLASSIFIED

PAGE 09 STATE 205448 TOSEC 100272

COUNTRIES ALSO RAISED IT AS A SHARE OF THEIR GNP. IN FISCAL 1975, SWEDEN BECAME THE FIRST DAC COUNTRY TO MEET THE 0.7 PERCENT OF GNP TARGET FOR ODA WHICH HAS BEEN ACCEPTED BY THE MAJORITY OF DAC MEMBERS.

26. TOTAL FLOWS FOR DEVELOPMENT BY DAC MEMBERS, WHICH INCLUDE EXPORT CREDITS EXTENDED BY OFFICIAL AND PRIVATE SECTORS, AND DIRECT AND PORTFOLIO INVESTMENTS, ROSE 10 PERCENT IN THE YEAR TO DOLS 26,700 MILLION. IN REAL TERMS,

ACCORDING TO DAC ESTIMATES, THAT FIGURE WAS EQUIVALENT TO 0.78 PERCENT OF DAC MEMBERS' COMBINED GNP, THE SAME PERCENTAGE AS 1973.

27. MULTILATERAL INSTITUTIONS SUCH AS THE WORLD BANK

HAVE INCREASED THEIR LENDING COMMITMENTS IN THE WAKE OF THE WORLDWIDE ECONOMIC MALAISE. IN ORDER TO ENCOURAGE ASSISTANCE FROM OTHER SOURCES, THE BANK HAS ALSO INCREASED THE SCOPE OF ITS CO-FINANCING ACTIVITIES WITH OTHER BILATERAL AND MULTILATERAL AGENCIES. DETAILS OF THIS COOPERATION ARE PROVIDED IN THE REGIONAL SECTIONS AND IN THE "AID COORDINATION" SECTION OF THIS ANNUAL REPORT.

28. BECAUSE FLOWS OF CONCESSIONARY ASSISTANCE CAN ONLY SUPPLEMENT THE FINANCES DEVELOPING COUNTRIES THEMSELVES RAISE TO FUND THE MEANS TO THEIR DEVELOPMENTAL ENDS, OTHER MEASURES MUST BE FOUND IF AN ANNUAL 6 PERCENT GROWTH RATE FOR THE DEVELOPING COUNTRIES IS TO BE ACHIEVED.

TRADE POLICIES

29. IN THIS CONTEXT, IT BECOMES ESSENTIAL TO EXAMINE TRADE POLICIES WHICH CAN ADD TO THE EXPORT EARNINGS, AND HENCE TO THE GROWTH, OF DEVELOPMENT COUNTRIES.

30. OVER THE YEARS, THE BANK HAS INCREASED ITS SUPPORT OF INTERNATIONAL COMMODITY AGREEMENTS, INCLUDING THE PROVISION OF TECHNICAL ASSISTANCE. IN THE PAST, IT HAS ENTERED INTO CONSULTATIVE ARRANGEMENTS WITH SPECIALIZED COMMODITY BODIES TO ENSURE THAT ITS ACTIONS AFFECTING THOSE COMMO-
UNCLASSIFIED

PAGE 10 STATE 205448 TOSEC 100272

DITIES ARE CONSISTENT WITH THEIR POLICIES. RECOGNIZING THAT THE STOCKING OF COMMODITIES IS AN IMPORTANT SEGMENT OF THE PRODUCTION PROCESS, THE BANK HAS ALSO PROVIDED ASSISTANCE FOR BUILDING FOODGRAIN WAREHOUSING FACILITIES IN SEVERAL COUNTRIES. IN FISCAL 1975, THE MANAGEMENT OF THE BANK REAFFIRMED ITS READINESS TO RECEIVE APPLICATIONS FOR THE FINANCING OF BUFFER STOCKS AND TO EXAMINE EACH PROPOSAL ON ITS MERITS. IT WAS ALSO RECOGNIZED THAT ONE MAJOR ISSUE THAT MAY ARISE STEMS FROM THE BANK'S CONSTITUTIONAL NEED FOR GOVERNMENTAL GUARANTEES THAT LOANS WILL BE REPAYED, AND THAT IN THE CASE OF INTERNATIONAL BUFFER STOCK AUTHORITIES, THE NATURE AND FORM OF SUCH GUARANTEES WOULD HAVE TO BE WORKED OUT.

31. THOUGH THE ENTIRE RANGE OF ISSUES DEALING WITH COMMODITY EXPORTS, INCLUDING ASSISTANCE FOR FINANCING BUFFER STOCKS, HAS COME INTO THE FOREFRONT OF INTERNATIONAL DISCUSSIONS, FEW COUNTRIES HAVE TAKEN MEASURES TO LOWER THE BARRIERS IMPOSED AGAINST THE IMPORTS OF PRIMARY PRODUCTS FROM DEVELOPING COUNTRIES. THE BANK BELIEVES, HOWEVER, THAT IF SUCH BARRIERS WERE DISMANTLED, IMPRESSIVE SHORT-TERM EXPORT GAINS COULD BE ACHIEVED BY DEVELOPING COUNTRIES. THESE ADDITIONAL EARNINGS COULD, BY 1980, EQUAL HALF THE AMOUNT OF ADDITIONAL FOREIGN EXCHANGE

NEEDED TO LIFT THE GROWTH OF DEVELOPING COUNTRIES TO A RATE OF 6 PERCENT.

32. PROGRESS HAS BEEN MADE IN IMPROVING EXPORT POSSIBILITIES, AS EXEMPLIFIED BY THE RECENT AGREEMENT REACHED IN LOME DEFINING TRADE RELATIONS BETWEEN 46 AFRICAN, CARIBBEAN, AND PACIFIC NATIONS AND THE EUROPEAN ECONOMIC COMMUNITY. IN PARTICULAR, THE MECHANISM INCLUDED IN THAT AGREEMENT FOR THE STABILIZATION OF EARNINGS FROM 12 COMMODITY EXPORTS HOLDS PROMISE FOR THE IMPROVEMENT OF TRADE PROSPECTS OF MANY DEVELOPING COUNTRIES. AS THE IMPORTANCE OF TRADE IN HELPING THE DEVELOPING COUNTRIES MEET THE NEEDS OF THEIR CITIZENS LOOMS EVER LARGER, THE TRADE DISCUSSIONS IN VARIOUS INTERNATIONAL FORA HAVE BECOME ALL THE MORE IMPORTANT. TRADE-RELATED NEGOTIATIONS BETWEEN

DEVELOPED AND DEVELOPING COUNTRIES UNDER THE AUSPICES OF UNCLASSIFIED

PAGE 11 STATE 205448 TOSEC 100272

BOTH UNCTAD (UN CONFERENCE ON TRADE AND DEVELOPMENT) AND GATT (GENERAL AGREEMENT ON TARIFFS AND TRADE) ARE CURRENTLY UNDER WAY.

33. INCREASED EARNINGS BY DEVELOPING COUNTRIES WHICH PRODUCE PRIMARY COMMODITIES ARE NOT THWARTED ONLY BY TRADE RESTRICTIONS IN THE INDUSTRIAL COUNTRIES. ANOTHER CONSTRAINT IS PRODUCTIVE CAPACITY IN THE DEVELOPING COUNTRIES THEMSELVES. A BANK STUDY INDICATES THAT ONLY BY INVESTING ABOUT 18,000 MILLION (IN 1974 DOLLARS) BY 1980 TO EXPAND PRODUCTION OF THESE COMMODITIES COULD THE DEVELOPING COUNTRIES TAKE FULL ADVANTAGE OF THE ELIMINATION OF TRADE RESTRICTIONS.

34. IMPORT LIBERALIZATION FOR PRIMARY COMMODITIES, THOUGH SIGNIFICANT IN OVERALL TERMS, WOULD NEVERTHELESS PROBABLY PROVE TO BE OF LIMITED VALUE TO THE DEVELOPING WORLD OVER THE LONG TERM. THE MARKETS FOR SUCH PRODUCTS WILL CONTINUE TO GROW ONLY SLOWLY, AS INCOME ELASTICITIES ARE, IN MOST CASES, LOW. IMPROVED LONG-TERM EXPORT PROSPECTS MUST, THEREFORE, BE BASED LARGELY ON TRADE IN MANUFACTURES.

35. ALTHOUGH MANUFACTURED GOODS NOW ACCOUNT FOR 25 PERCENT OF THE TOTAL EXPORTS OF THE DEVELOPING COUNTRIES, THEIR SHARE OF THE WORLD TRADE IN MANUFACTURED GOODS IS STILL ONLY ABOUT 6 PERCENT. MOREOVER, EXPORTS OF MANUFACTURES FROM DEVELOPING COUNTRIES HAVE GROWN ONLY marginally FASTER IN VALUE BETWEEN 1960 AND 1972 THAN TOTAL WORLD TRADE IN THIS CATEGORY.

36. MANUFACTURED PRODUCTS FROM DEVELOPING COUNTRIES OFTEN FACE A VARIETY OF TARIFF AND NON-TARIFF BARRIERS (COUNTERVAILING DUTIES, QUANTITATIVE RESTRICTIONS, AND VOLUNTARY

BUT NEGOTIATED RESTRAINTS ON EXPORTS, FOR INSTANCE). IN RECENT YEARS, SEVERAL INDUSTRIAL COUNTRIES HAVE BEGUN EFFORTS TO PHASE OUT DOMESTIC INDUSTRIES WHICH CANNOT COMPETE WITH MANUFACTURED GOODS FROM DEVELOPING COUNTRIES. ALTHOUGH THERE ARE LIMITS TO THE SPEED AT WHICH THIS CAN BE DONE, THE BANK BELIEVES THAT THE ADOPTION OF MORE LIBERAL POLICIES BY DEVELOPED COUNTRIES ON THE IMPORTATION OF MANUFACTURED GOODS IS ESSENTIAL TO THE LONG-TERM

UNCLASSIFIED

PAGE 12 STATE 205448 TOSEC 100272

GROWTH PROSPECTS OF THE DEVELOPING COUNTRIES. IN THE SHORT RUN, HOWEVER, INCREASES IN EXPORTS OF MANUFACTURED

GOODS BY DEVELOPING COUNTRIES WILL BE PARTICULARLY SENSITIVE TO THE EXTENT OF RECOVERY FROM RECESSION IN THE INDUSTRIAL WORLD. A BANK STUDY ESTIMATES THAT MANUFACTURED EXPORTS FROM DEVELOPING COUNTRIES IN THE PERIOD 1976-80 COULD INCREASE BY MORE THAN 15 PERCENT YEARLY, PROVIDED THAT GROWTH IN THE OECD COUNTRIES WERE TO AVERAGE 6 PERCENT IN THE SAME PERIOD.

37. EVEN IF GROWTH IN THE INDUSTRIALIZED WORLD IS SLOW, PETROLEUM EXPORTING COUNTRIES MIGHT BE A SIGNIFICANT MARKET FOR MANY DEVELOPING COUNTRIES. IMPORTS OF GOODS BY OPEC MEMBERS, ESTIMATED TO BE ON THE ORDER OF DOLS 43,500 MILLION IN 1974 (A FIGURE ALMOST DOUBLE THAT OF 1973), ARE PROJECTED TO INCREASE BY AS MUCH AS 25 PERCENT ANNUALLY THROUGH 1980. THE PAST SHARE OF EXPORTS TO THIS GROUP OF COUNTRIES BY DEVELOPING COUNTRIES HAS BEEN ONLY 14 PERCENT; A MAINTENANCE OF THIS SHARE WOULD CONTRIBUTE GREATLY TO THEIR ABILITY TO PAY FOR THEIR IMPORT REQUIREMENTS.

LONG-TERM DEVELOPMENT NEEDS

38. AN INCREASE IN EXPORTS-BOTH OF PRIMARY COMMODITIES AND OF MANUFACTURES-FROM THE DEVELOPING COUNTRIES WOULD PROVIDE A BOOST TO THEIR STAGNATING ECONOMIES. YET GREATER EARNINGS THROUGH EXPORTS CANNOT BE EXPECTED TO SOLVE THE ACCUMULATED ECONOMIC PROBLEMS AND CONSTRAINTS OF THE DEVELOPING WORLD.

39. THE FACT IS THAT DEVELOPING COUNTRIES WITH ANNUAL PER CAPITA INCOMES OF ABOVE DOLS 200 WOULD BE THE CHIEF BENEFICIARIES OF EXPORT EXPANSION AND TRADE LIBERALIZATION. THE DEGREE OF THEIR CURRENT DEPENDENCE ON WORLD TRADE IS FAR LARGER THAN THAT OF THE LOWER-INCOME COUNTRIES. SINCE 1974, EXTERNAL FINANCE HAS BEEN LESS USED AS A SUPPLEMENT TO DOMESTIC SAVINGS AS TERMS OF TRADE DETERIORATED. EXPORT GROWTH CAN HELP RETURN RATES OF DOMESTIC SAVINGS-AND HENCE, DOMESTIC RESOURCES AVAILABLE

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PAGE 13 STATE 205448 TOSEC 100272

FOR DEVELOPMENT PROGRAMS-TO MORE NORMAL LEVELS. BUT IF LONG-TERM DEVELOPMENT IS TO PROCEED-ESPECIALLY FOR THE 1,000 MILLION PEOPLE LIVING IN THE LOWER-INCOME DEVELOPING COUNTRIES-MUCH LARGER CAPITAL FLOWS ON CONCESSIONAL TERMS MUST BE PROVIDED.

40. THERE ARE BUT A FEW DEVELOPING COUNTRIES WITH HIGHLY DIVERSIFIED ECONOMIES WHICH CAN HOPE TO ACHIEVE ADEQUATE RATES OF GROWTH SOLELY THROUGH EXPORT GROWTH. FOR THE REST, A COMBINATION OF MEASURES WILL BE NEEDED TO ENABLE THEM TO PAY FOR THE IMPORTS REQUIRED FOR SUSTAINED DEVELOPMENT. THAT COMBINATION CAN BE PROVIDED ONLY THROUGH COOPERATION AMONG THE INDUSTRIALIZED, PETROLEUM EXPORTING, AND DEVELOPING COUNTRIES. EXPANDED EXPORTS TO AND INCREASED CAPITAL FLOWS FROM OECD AND OPEC MEM0ERS CAN HELP THE DEVELOPING COUNTRIES WEATHER THE CURRENT TRANSITIONAL PERIOD OF ECONOMIC DISEQUILIBRIUM. BEYOND THIS PERIOD, HOWEVER, LONG-TERM DEVELOPMENT FINANCE ON CONCESSIONAL TERMS WILL BE NEEDED TO HELP PROVIDE DEVELOPING COUNTRIES-ESPECIALLY THE LOWER-INCOME ONES, WHOSE DEPENDENCE ON FOREIGN TRADE IS RELATIVELY SMALL-WITH THE CAPITAL NEEDED TO FINANCE PROGRAMS DESIGNED TO ACHIEVE BASIC DEVELOPMENT OBJECTIVES WHICH INCREASINGLY ARE DESIGNED TO RAISE THE PRODUCTIVITY OF THE POOREST GROUPS IN THEIR MIDST.

41. IN RESPONSE TO THE WORSENING ECONOMIC CONDITIONS, GLOBAL INITIATIVES WERE LAUNCHED DURING THE PAST FISCAL YEAR TO DEAL WITH TWO OF THE WORLD'S MOST INTRACTABLE PROBLEMS: THE DETERIORATING ECONOMIC POSTURE OF THE DEVELOPMENT COUNTRIES, AND THE CONTINUING THREAT OF DISASTROUS IMBALANCE BETWEEN FOOD SUPPLIES AND POPULATION.

42. SECTIONS OF THE REPORT DESCRIBING THE DEVELOPMENT COMMITTEE, THE THIRD WINDOW, THE WORLD FOOD CONFERENCE, RURAL DEVELOPMENT, EDUCATION, HEALTH, AND HOUSING AND URBAN TRANSPORT HAVE BEEN EXCLUDED IN INTEREST OF TIME. THEIR INCLUSION WOULD HAVE TRIPLED THE LENGTH OF THE CABLE. INGERSOLL

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